Before the
Federal Communications Commission
Washington, DC 20554

In the Matter of	)	
	)	
Application of Verizon New Jersey, Inc.,	)	
BellAtlantic Communications, Inc. (d/b/a	)	
Verizon Long Distance), NYNEX Long	)	WC Docket No. 02-67
Distance Company (d/b/a/ Verizon Enterprise	)	
Solutions), Verizon Global Networks, Inc., and	)	
Verizon Select Services, Inc., for	)	
Authorization to Provide In-Region	)	
InterLATA Services in New Jersey	)	

REPLY COMMENTS OF AT&T CORP.

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April 19, 2002

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REPLY COMMENTS OF AT&T CORP.

Pursuant to the Commission's Public Notice, AT&T Corp. ("AT&T") respectfully submits these reply comments in opposition to the second application of Verizon for authorization to provide in-region, interLATA services in New Jersey.

INTRODUCTION AND SUMMARY

The comments confirm that Verizon's anticompetitive behavior and inflated UNE rates have foreclosed, and continue to foreclose, local entry in New Jersey. Verizon serves about 98 percent of all residential customers in New Jersey, and nearly all of the remaining two percent of customers are served by resellers (that are attracting few new customers). Verizon's New Jersey local markets are clearly not open to local competition, let alone irreversible competition.

The DOJ Evaluation and the comments conclusively show that Verizon has failed to satisfy its burden of demonstrating that its UNE rates comply with the Commission's TELRIC rules. Although Verizon's second Application contains hot cut nonrecurring charges ("NRCs") that are lower than those in its first application, Verizon's new hot cut rates still substantially

exceed TELRIC levels, and Verizon does not even attempt to show that these rates were developed using TELRIC principles. Moreover, as pointed out by the DOJ, "the duration of these [hot cut] reductions remains uncertain" and "the Commission should assure itself that Verizon's commitment will remain in place for a sufficient time to allow competitive entry" before approving Verizon's Application. DOJ Eval at 2, 5. The comments also confirm that Verizon's New Jersey switching usage rates are inflated and reflect myriad clear TELRIC errors. And Verizon's DUF rates and feature order change NRCs are likewise substantially overstated.

The comments also vividly confirm that Verizon's New Jersey local monopolies are further protected from competitive entry by Verizon's deficient OSS. As noted by the DOJ, "several questions remain for the Commission to resolve" regarding nondiscriminatory access to Verizon's OSS. DOJ Eval. at 7, 9. Most prominently, Verizon has failed to demonstrate that it can produce a readable, auditable and accurate wholesale bill. To the extent that CLECs have attempted to audit Verizon's paper wholesale bills, CLECs have found that those bills are replete with errors, requiring CLECs to expend substantial time and resources to have the erroneous charges corrected.

The comments further confirm that a grant of Verizon's Application would not be in the public interest. Indeed, the comments show that Verizon is leveraging its market power in New Jersey to block entrants' from obtaining new local voice customers and to gain concessions from carriers which allow Verizon to circumvent liability under its (already-inadequate) Performance Incentive Plan. On this record – where the vast majority of Verizon's New Jersey markets for residential local exchange service are effectively closed to new entrants by inflated UNE rates, poor OSS provisioning and other anticompetitive behavior – Verizon's application must be denied.

These Reply Comments are organized around the same issues and concerns that AT&T highlighted in its opening comments. Part I reviews the record evidence relating to the numerous clear TELRIC violations that substantially inflate Verizon's hot cut NRCs, switching usage rates, DUF rates, and feature order change NRCs. Part II addresses Verizon's continuing lack of compliance with its obligation to provide nondiscriminatory access to its operations support systems. And Part III reviews the evidence identified by commenters showing that approval of Verizon's New Jersey Application would contravene the public interest.

I. VERIZON HAS NOT SATISFIED ITS BURDEN OF PROVING THAT ITS RECURRING AND NON-RECURRING RATES SATISFY CHECKLIST ITEM TWO.

Hot Cut NRCs. The comments confirm that Verizon's modest unilateral reductions to the astronomically high hot cut rates it relied upon in its first application are not remotely sufficient to bring those rates within TELRIC-compliance. *See* ASCENT at 5-7; Cavalier at 2; DOJ Eval. at 1-3; XO at 2-5 AT&T at 7-11. Verizon's new $35 hot cut rate is still substantially above forward-looking costs, which are no more than $4.35.[1] As a result, Verizon's $35 hot cut rate is up to *seven times* higher than the rates that Verizon charges for the same processes in other states.[2] Moreover, there is no Commission-approved hot cut rate to which Verizon can "benchmark" its New Jersey hot cut rate, and because Verizon has provided no cost

[1] *See* AT&T at 7-8; *Ex Parte* Letter from Robert W. Quinn (AT&T) to William Caton, CC Docket No. 01-347 (acting FCC Secretary), attached Declaration of Richard Walsh ¶¶ 26-30 (March 1, 2002) ("Walsh March 1 Decl.) (showing that correcting those errors in Verizon's costs studies that could be corrected yields a hot cut rate of $4.35, and that computing hot cut rates using a fully TELRIC-compliant cost study yields a hot cut rate of $2.77) (attached hereto without original attachments); Supplemental Comments of AT&T, CC Docket No 01-347, Attached Supplemental Declaration of Richard Walsh (filed March 13, 2002) (attached hereto without original attachments).

studies or other evidence to justify these enormous discrepancies, neither the NJBPU nor this Commission can independently find Verizon's New Jersey hot cut rates to be TELRIC-compliant.

The comments further confirm that Verizon's only two justifications for its New Jersey hot cut rates are baseless. Verizon first claims that *any* discount to its initial hot cut rates necessarily results in TELRIC-compliant rates, because its initial hot cut rates were, in fact, TELRIC-compliant. *See* VZ Br. at 17. As explained by multiple commenters, that argument must be rejected out of hand. *See* ASCENT at 3; Cavalier at 2; XO at 2-3; AT&T at 8. The record created on Verizon's first New Jersey Application conclusively established that the assumptions Verizon used to determine its original hot cut rates plainly violated basic TELRIC principles.[3] *See id.*

Nor can Verizon justify its New Jersey hot cut rates by comparison to the interim hot cut rates established as part of comprehensive settlement of a host of disputes in New York. Verizon cannot reasonably be permitted to export a single term from that comprehensive agreement without the accompanying Verizon concessions that allowed that term to take effect.

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[2] *See* AT&T at 8 (showing the hot cut rates in Pennsylvania ($4.07), Virginia ($13.49), Massachusetts ($15.26), Maryland ($16.22), and Delaware ($22.52)); *see also* ASCENT at 5-6; Cavalier at 2.

[3] Verizon offers a new argument to defend its initial and substantially inflated hot cut rates. Verizon asserts that the statistical sampling methodology that is used to generate the worktimes used to compute the massively overstated hot cut rates is reasonable, and that even if Verizon uses a more conservative statistical sampling approach, its hot cut rates would fall to only $110.98. Garzillo/Prosini Supp. Decl. ¶¶ 27-28. Verizon misses the point. As demonstrated in the declarations of Richard Walsh (attached) filed in the first New Jersey Section 271 proceeding Verizon's hot cut rates inflated by manual processes that *should not be reflected at all* in those rates.

XO at 2-5; AT&T at 10.[4] In any event, Verizon's New York hot cut rates are not an appropriate benchmark. Verizon's New York hot cut rates are not based on any cost studies, and have never been found to be TELRIC-compliant by the NYPSC or by this Commission. *See, e.g., RI 271 Order* ("[t]o determine whether a comparison is reasonable, the Commission will consider whether . . . the Commission has already found the rates in the comparison state to be TELRIC-compliant").

Finally, as demonstrated by the DOJ, even if (contrary to fact) Verizon had attempted to justify its $35 New Jersey hot cut rate as TELRIC-compliant, its Application still must be denied because "Verizon's commitment to offer the reduced rate in New Jersey is illusory." DOJ Eval. at 3. Verizon has made no binding commitment to actually implement the $35 hot cut rate for any period of time and has clearly left "open the possibility that Verizon may raise prices soon after Section 271 authority is granted." *Id.*; *see also* XO at 2-5; AT&T at 11. The only step Verizon has taken to reduce its New Jersey hot cut rates is to send a non-legally binding letter to the NJBPU, which contains terms that specifically allow Verizon to increase its New Jersey hot cut rates at any time.[5] *See* DOJ Eval at 4-5; XO at 2-5; AT&T at 11. Thus, as explained by the DOJ, "the Commission should . . . assure itself that Verizon's commitment will remain in place for a sufficient time to allow competitive entry" before it approves Verizon's New Jersey Application. DOJ Eval. at 5.

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[4] For example, as part of the Comprehensive settlement agreement, Verizon agreed to not appeal the NYPSC's UNE rate order. However, as noted by the DOJ, Verizon "has refused to foreclose the possibility of challenging the remaining prices set [by the NJBPU]." DOJ Eval at 4.

[5] By contrast, in New York, Verizon agreed to be legally bound to retaining the $35 hot cut rate for two years. *See* XO at 2-5; AT&T at 10-11.

Switching Usage Rates. The comments overwhelmingly confirm that Verizon's New Jersey switching usage rates are substantially inflated by clear TELRIC errors. *See* ASCENT at 3-4; NJRPA at 7-9; WorldCom at 6-9; AT&T at 14-18; *see also* DOJ Eval. at 5 n.14. Verizon's New Jersey switching rates (1) improperly recover non-usage sensitive vertical features costs through usage sensitive switching rates;[6] (2) fail to account for any switch usage on weekends and holidays;[7] and (3) improperly apply switching charges twice for intra-switch calls, even though an intra-switch call passes through a switch processor only once.[8] These clear TELRIC errors inflate Verizon's switching rates by at least 100 percent. *See, e.g.,* WorldCom at 9 & Frentrup ¶ 17. Consequently, Verizon's New Jersey switch usage rates are about twice those in New York and Pennsylvania. *See* ASCENT at 4; AT&T at 14; NJRPA at 8-9; WorldCom at 4-5.

Verizon urges the Commission to ignore these clear TELRIC violations on the grounds that Verizon's total non-loop rates (the sum of switching usage, switch port, transport, and signaling) in New Jersey are lower than those in New York. VZ Br. at 10-11 &

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[6] *See* ASCENT at 4; WorldCom at 8-9 & Frentrup Decl. ¶ 16; AT&T at 14-18 & Baranowski Decl. ¶¶ 3-7. Verizon has not submitted its switching cost models ("SCIS") models in this proceeding. Had Verizon submitted those cost studies, AT&T could have shown specifically the extent to which Verizon's improper inclusion of vertical feature costs in Verizon's switching usage rates inflates the switching usage rates. *See* AT&T at 15 & Baranowski Decl. ¶¶ 3-7. Verizon has already provided AT&T with electronic copies of these switching cost models in the ongoing proceeding relating to reconsideration of the recent UNE rate order issued by the NJBPU. Those cost models, however, are covered by a confidentiality agreement. AT&T has requested that Verizon make those cost models available in this proceeding *See* Letter from Amy Alverez (AT&T) to Stephen McPherson (Verizon) (dated April 19, 2002).

[7] *See* ASCENT at 4; WorldCom at 6-7 & Frentrup Decl. ¶¶ 6-13. *See also* NJRPA at 8-9 (showing that Verizon's New Jersey switching usage rates would fall dramatically if, in New Jersey, Verizon used the same number of days that Verizon is required to use in New York to compute switching usage rates).

[8] *See* ASCENT at 4; WorldCom at 8 & Frentrup Decl. ¶ 16.

Garzillo/Prosini Decl. ¶¶ 30-36. But as demonstrated by WorldCom, Verizon's non-loop comparison cannot be given any weight, because it is fundamentally flawed by the use of improper usage assumptions. *See* WorldCom at 2-6, Frentrup ¶¶ 18-20, Huffman ¶¶ 2-10. Moreover, as shown by AT&T and WorldCom, state-to-state comparisons of Verizon's non-loop charges are not relevant here. *See* WorldCom at 5; AT&T at 15-17. To be sure, the Commission has, in the past, relied on state-to-state comparisons of total non-loop rates in recognition of the fact that there may be legitimate differences in the ways states allocate such costs among usage, port and other switching-related charges. However, that does not mean that fundamental TELRIC violations or unreasonable allocations of costs can be ignored. *See id.* As emphasized by this Commission, overstating usage sensitive rates can result in serious competitive harms. *See Local Competition Order* ¶ 74. Only if allocations between non-loop elements can be said to fall within a reasonable range can an aggregate comparison of non-loop rates be meaningful, and here there have been gross misallocations of non-traffic sensitive costs to usage rate elements, as well as myriad other TELRIC errors that inflate usage rates. Thus, even if Verizon had provided properly calculated state-to-state comparisons of Verizon's non-loop rates, those comparisons would not be relevant; the relevant comparison is that of Verizon's switching usage rates in New Jersey to its much lower usage rates in other states.

DUF Rates. Verizon's New Jersey DUF rates also are substantially inflated by a number of clear TELRIC-errors, including (1) a basic mathematical error that inflates one DUF rate component by 100 times; (2) recovery of a "CLEC Support" charge in DUF rates that is already recovered in Verizon's overhead factors; and (3) an undocumented "CLEC Support" charge that is recovered in DUF rates and that appears to be computed based on understated demand assumptions. *See* AT&T at 11-14 & Baranowski Decl. ¶¶ 11-13. As demonstrated by

AT&T, these clear TELRIC errors inflate Verizon's New Jersey DUF rates by at least 5 times. *See id.*

A comparison of Verizon's New Jersey DUF rates to those in Pennsylvania provides additional evidence that these clear TELRIC errors inflate Verizon's costs far above any possible reasonable range TELRIC rates.[9] Verizon frankly admits that, because it processes messages in central facilities for all states in its southern region, the DUF rates in those states should be substantially the same. Yet Verizon's New Jersey DUF rates result in monthly per line DUF charges that are 5 times higher than those in Pennsylvania, a state in Verizon's southern region where Verizon has obtained Section 271-approval.[10]

Service Order NRCs. Verizon's New Jersey service order change NRCs of $7.71 (normal) and $11.02 (expedited) for feature changes also are inflated by clear TELRIC errors. *See* AT&T at 18 & Walsh Decl. ¶¶ 6-11. As demonstrated in the declaration of Richard Walsh, these charges are not supported by Verizon's workpapers, which show that the cost of changing features is *de minimus*. *See id.* Indeed, Verizon imposes an $0.83 charge to process an *entire* initial service order, including whatever features the customer has ordered. *See id.* ¶ 7. Certainly, the costs associated with processing a feature change request can be no more than the cost of processing a much more complex initial service order. Thus, Verizon's service order

[9] The Commission has held that evidence that a BOC's DUF rates are higher than those in another state is not alone sufficient to prove that those DUF rates are not TELRIC-compliant. *Vermont 271 Order* ¶ 26. However, where, as here, there are clear TELRIC violations that inflate the BOCs rates, such interstate comparisons are useful to show that those TELRIC violations inflate the BOCs rates well above any reasonable range of TELRIC rates.

[10] Verizon's Pennsylvania per message DUF rate is $0.000356, whereas Verizon's New Jersey per message DUF rate is $0.001797.

charges are, at best, nearly 10 times too high. *See id.* A proper service order charge would not exceed $0.27 cents. *See id.* ¶ 10.

II. THE COMMENTS DEMONSTRATE THAT VERIZON DOES NOT PROVIDE NONDISCRIMINATORY ACCESS TO ITS OPERATIONS SUPPORT SYSTEMS.

The comments document numerous respects in which Verizon has not shown that it provides nondiscriminatory access to its OSS. AT&T at 19-29; Metropolitan Telecommunications ("MetTel") at 4-7; Metro Teleconnect at 3-6; National ALEC Association at 3-6; New Jersey Division of the Ratepayer Advocate ("NJRPA") at 9-16.[11] Most notably, the comments confirm that Verizon has failed to "demonstrate that it can produce a readable, auditable and accurate wholesale bill." For that reason alone, Verizon cannot be found to have satisfied its OSS obligations under Checklist Item Two. *See Pennsylvania 271 Order* ¶ 22; AT&T at 19-23; ATX *ex parte* at 1-4; Metro Teleconnect at 4-5; National ALEC Association at 4-5; NJRPA at 9-16.

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[11] *See also* Letter from Michael H. Pryor to William F. Caton (March 26, 2002), attaching *ex parte* Letter from Bruce Bennett to Dorothy Attwood, CC Docket No. 01-347 (dated March 5, 2002) ("ATX *ex parte*"), Att., at 1-4. In its latest comments, the BPU does not specifically address OSS issues but simply incorporates by reference the conclusions and findings that it made in its January 14, 2002 Consultative Report to the Commission in CC Docket No. 01-347. *See* BPU at 1. As AT&T has previously demonstrated, however, the NJBPU's own analysis of the OSS issue in its Consultative Report shows that there are serious evidentiary and system deficiencies that preclude any finding that Verizon complies with its OSS obligations. *See* AT&T Reply Comments filed February 1, 2002, in CC Docket No. 01-347 ("AT&T *New Jersey I* Reply Comments"), at 14-21. For example, although the BPU found that Verizon provides nondiscriminatory access to billing functions, that finding was contradicted not only by the evidence but by the two conditions imposed by the BPU on its finding, which clearly reflected a lack of confidence by the BPU that Verizon's electronic bills meet the requirements of Section 271. *Id.* at 20-21. The BPU required that Verizon continue its "manual review and balancing process" to ensure that its electronic bills balance internally and match its paper bills, and include metrics for the timeliness and accuracy of electronic billing in its monthly performance reports and Performance Incentive Plan. These conditions would have been wholly unnecessary if the

The DOJ agrees that "several questions remain for the Commission to resolve" regarding nondiscriminatory access to Verizon's OSS, including questions regarding the adequacy of Verizon's wholesale bills. DOJ Eval. at 7, 9. DOJ states that the deficiencies in Verizon's billing systems described in the comments of AT&T and other parties reinforce its previously-expressed concern that "the problems experienced by CLECs in obtaining accurate and auditable bills in Pennsylvania could occur in New Jersey." *Id.* at 5-6. DOJ also notes that "Verizon's own performance data demonstrates that inaccuracies in the [wholesale] carrier bill persist," citing Verizon's error rate of more than 10 percent in January 2002. *Id.* at 7 & n.28.

CLECs cannot audit their bills because Verizon has failed to produce an adequate electronic bill, and because auditing the thousands of pages of the paper version of the wholesale bill would be prohibitively costly and time-consuming. *See, e.g.*, AT&T at 19-21; ATX *ex parte* at 2-3.[12]

BPU was fully satisfied that Verizon was providing electronic bills to CLECs in a timely and accurate manner. *Id.*

[12] As AT&T demonstrated in its opening comments, Verizon's electronic bills are not properly formatted, thereby preventing AT&T from using them to verify the accuracy of Verizon's charges. For example, Verizon has routinely failed to provide a telephone number for every charge that is listed on the bill – thereby requiring AT&T to manually research the missing telephone numbers and increasing AT&T's costs. *See* AT&T at 19-20. Furthermore, Verizon's electronic bills cannot be audited or inputted into AT&T's systems because the bills are incorrectly formatted in violation of industry billing guidelines. *Id.* at 20. Although Verizon claims that these problems have recently been (or will soon be) fixed, several billing cycles will be required before any determination can be made as to whether the fixes actually work. *Id.* at 20-21. Finally, contrary to industry standards, Verizon uses telephone numbers, rather than circuit numbers, as the field identifiers ("FIDs") for directory listings on customer service records for UNE loops. Like Verizon's refusal to use industry standard phrase codes on the BOS BDT bills, the use of TNs as FIDs in this manner prevents AT&T from auditing BOS BDT bills for UNE loops or from inputting the data from such bills into its systems. Verizon has indicated that this problem will not be fixed until at least the third quarter of 2002. Until that time, AT&T will remain unable to use BOS BDT bills for loops even if the other problems with the electronic bills are fixed by this spring, as Verizon has promised.

Moreover, Verizon's wholesale bills are replete with errors, requiring CLECs to expend substantial time and resources to have the erroneous charges corrected. *See* AT&T at 21-23; ATX *ex parte* at 2-4, 7; Metro Teleconnect at 4; National ALEC Association at 4. For example, the comments show that as much as 20 percent of the charges listed on Verizon's wholesale bills to resellers have been incorrect – a situation that has been aggravated by Verizon's inconsistent application of the promotional discount to which it agreed as part of the conditions of its merger with GTE. Metro Teleconnect at 4; National ALEC Association at 4. Metro Teleconnect alone estimates that the amounts in dispute on its bills currently total almost $3 million. Metro Teleconnect at 4-5. ATX estimates that, as a result of repeated errors in billing by Verizon for almost *five years*, its wholesale bills from Verizon have included $18 million in erroneous charges, for which Verizon has already granted more than $12 million in credits. ATX *ex parte* at 3. And, as AT&T has previously shown, even in a limited sample of the wholesale bills that AT&T received for the UNE platform, Verizon included numerous, patently erroneous charges for vertical, retail services. AT&T at 21-22 & Kamal Decl. ¶¶ 25-28.[13]

[13] In its reply comments filed yesterday in Section 271 proceedings before the Delaware Public Service Commission, Verizon acknowledged that it had improperly included charges for retail services on its wholesale bills in New Jersey. Contrary to AT&T's evidence (*see* AT&T at 22 & Kamal Decl. ¶¶ 26-27), Verizon contended that these errors were not a "systemic" problem. However, Verizon provided no description of the source of the problem, other than to state that the incorrect billing was "a result of errors made during order processing." *See* OSS Declaration on Behalf of Verizon Delaware Inc., filed April 18, 2002, in Delaware PSC Docket No. 02-001, 13. Furthermore, although Verizon contended that it "has identified occurrences of this error condition, and is working to correct the issue and to provide credits where it has occurred" (*id.*), Verizon did not indicate whether it has (1) reviewed its records for all CLECs or (2) provided credits for all months since the customer migrated to the CLEC, rather than simply for the most recent month's bill in which the error was detected by the CLEC. In any reasonable commercial relationship, a supplier such as Verizon would not only determine the root cause of the problem but also credit all inappropriate charges, rather than force the CLEC to play detective for each and every bill received. *See* AT&T at 22-23.

Finally, the comments demonstrate that resolution of these erroneous charges with Verizon requires the CLECs to devote substantial time and resources, thereby increasing their costs and impairing their ability to compete with Verizon in the local exchange market.[14] These problems are compounded by the substantial time that Verizon takes to resolve claims for adjustment of bills by CLECs, due to Verizon's failure to devote sufficient resources to the process. *See* ATX *ex parte* at 3; Metro Teleconnect at 4; National ALEC Association at 5. ATX, for example, states that the length of time required to obtain credits "has steadily increased, from an average of 90 days in 1999 to 230 days in 2001." ATX *ex parte* at 3.

The actual commercial experience reflected in the CLECs' comments demonstrates that Verizon is denying nondiscriminatory access to billing functions, because it imposes unnecessary and significant costs on the CLECs that Verizon does not incur in its own retail operations. *See* AT&T at 23; ATX *ex parte* at 3-4. *See also* DOJ Eval. at 6 (finding that inclusion of erroneous charges on wholesale bills raises costs for CLECs). Verizon cannot rebut this evidence with its reported performance data, because those data simply confirm the errors in its bills. *Id.* at 7. Indeed, as the NJRPA states, Verizon has not even begun to report performance data for its metrics regarding its electronic bills – "a necessary tool to gauge whether the electronic billing systems are functioning properly." NJRPA at 10-11. And, even if the third-party testing of Verizon's billing systems in New Jersey is relevant notwithstanding the

[14] *See* AT&T at 22-23 (describing the substantial time and resources that AT&T must expend to have bills adjusted for errors); ATX *ex parte* at 3 (describing process for correcting Verizon's billing systems as "enormously time consuming and resource intensive"); Metro Teleconnect at 5 (resolution of billing errors requires Metro Teleconnect "to devote significant financial and employee resources," thereby "hamper[ing] its ability to compete against Verizon in the local exchange market"); National ALEC Association at 5 (resolution of billing disputes has cost NALA/PCA members "hundreds of thousands of dollars and hundreds of hours of employee time, seriously hampering their ability to compete against Verizon in the local exchange market").

actual commercial experience described in the comments, the testing conducted by KPMG and the PriceWaterhouseCoopers ("PWC") mere attestation provides no basis for concluding that Verizon has provided parity of access to billing functions.[15]

For these reasons, Verizon has failed to meet the requirement of Section 271 that it provide complete, accurate, and timely wholesale bills. Even leaving that deficiency aside, Verizon cannot demonstrate compliance with its OSS obligations, given its failure to provide reliable and accurate performance data. AT&T at 23-26. Finally, even assuming *arguendo* that they are reliable and accurate, Verizon's own reported performance data show that it denies parity of OSS not only in billing, but in several other significant respects, such as flow-through, order rejections, and loop provisioning. *Id.* As a result, Verizon cannot reasonably be found to be in compliance with checklist item 2.

III. APPROVING VERIZON'S APPLICATION WOULD NOT BE IN THE PUBLIC INTEREST.

The comments confirm that Verizon's Application must be rejected because a grant of the Application would not be in the public interest. As numerous commenters point out, residential competition is almost non-existent in New Jersey. *See, e.g.*, NJRPA at 3-5; Sprint at 2-3; AT&T at 29-30. The absence of residential competition is *not* the result of neutral business considerations uniquely within the control of new entrants, *Michigan 271 Order* ¶¶ 385-391, but is due to Verizon's anticompetitive resistance and refusal to open local residential markets in

[15] KPMG's testing of Verizon's billing systems was inadequate not only because it was limited to Verizon's *paper* bills, but also because the process that KPMG used (including the creation of new, pristine accounts without any prior account history) was narrow in scope and did not reflect the real-world experience of the CLECs. PWC's "attestation review" of Verizon's electronic wholesale bills was also unreliable, because PWC did not even evaluate the accuracy of such bills. *See* AT&T Comments filed January 14, 2002 in CC Docket No. 01-347 at 20 & Kirchberger/Nurse/Kamal Decl. ¶¶ 49-54; AT&T *New Jersey I* Reply Comments at 20.

New Jersey to competitors. *See, e.g.,* NJPRA at 3-5; Sprint at 2-3; AT&T at 29-30. For example, as explained by Allegiance, Verizon appears to be deterring New Jersey customers from switching to another local telephone provider by improperly cutting off customers' digital subscriber line ("DSL") service when the customer chooses to switch to a local competitor for local voice services. *See* Allegiance at 5-7 & Exhibit 1.

In addition, as demonstrated by AT&T, Verizon's Performance Incentive Plan contains inherent defects that preclude it from giving Verizon an incentive to comply with Section 271 in the future – and thus cannot serve as an effective deterrent to "backsliding." In fact, as demonstrated by AT&T, recent conduct by Verizon shows that Verizon has both the incentive and ability to delay or jeopardize local entry. *See* AT&T at 30-33.

On this record, a grant of Verizon's New Jersey Application would not be in the public interest. Verizon's Application must therefore be denied.

CONCLUSION

For the foregoing reasons, and for the reasons stated in AT&T's pleadings and *ex parte* letters in response to Verizon's first Application, Verizon's second Application should be denied.

Respectfully submitted,

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April 19, 2002

CERTIFICATE OF SERVICE

I hereby certify that on this 19th day of April, 2002, I caused true and correct copies of the forgoing Reply Comments of AT&T Corp. to be served on all parties by mailing, postage prepaid to their addresses listed on the attached service list.

Dated: April 19, 2002
Washington, D.C.

/s/ Peter Andros

Peter M. Andros

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Attachment 1

3/1/02 AT&T Ex Parte
Declaration of Richard J. Walsh
(attachments excluded)

Before the
Federal Communications Commission
Washington, DC 20554

In the Matter of Application of Verizon New Jersey, Inc., BellAtlantic Communications, Inc. (d/b/a Verizon Long Distance), NYNEX Long Distance Company (d/b/a/ Verizon Enterprise Solutions), Verizon Global Networks, Inc., and Verizon Select Services, Inc., for Authorization to Provide In-Region InterLata Services in New Jersey	)	CC Docket No. 01-347

DECLARATION OF RICHARD J. WALSH
ON BEHALF OF AT&T CORP.

I. QUALIFICATIONS AND PURPOSE OF TESTIMONY.

1. My name is Richard J. Walsh. My business address is 33 Francis Drive, Hillsborough, NJ, 08844. I am Senior Telecommunications Analysis and founder/CEO of Richard J. Walsh & Associates, Inc.

2. I began my telecommunications career in 1970 with New England Telephone (subsequently NYNEX) in the Central Office Equipment Installation Department. From 1975 to 1984, I held positions in the Customer Services Outside Plant Department, as a Completions Clerk to the Installation Control Centers, a Facilities Assigner, and Electronic Switching Systems (ESS) Conversions Facilities Assigner; and as a Technical Support Staff Manager for ESS Conversions where I trained, supervised and directed non-management craft and semi-craft personnel in ESS conversion activities, and provided technical support to organizations that were responsible for records conversion and mechanization. Additionally, I was responsible for technical matters associated with the dial for dial (electromechanical to

electronic and digital) switch conversions. I was also instrumental in helping New England Telephone develop alternative plans for converting manual plant records to mechanized systems by defining system requirements and analyzing vendor software systems.

3. In 1984, I interned at Bellcore (Bell Communications Research) to develop system and training requirements for its Facility Assignment and Control System ("FACS") product line. I later accepted an assignment as a Staff Manager supporting FACS conversion activities where I was responsible for systems training, methods and procedures development, and the staffing of a company-wide FACS system hotline.

4. From 1986 to 1993 at NYNEX, I managed the day-to-day operations of the Rhode Island Mechanized Loop Assignment Center (MLAC), which included service order provisioning, field assistance, engineering work order preparation and support, as well as FACS database maintenance. I also worked as an Outside Plant Engineer designing and preparing work prints for toll, exchange feeder, and distribution cable jobs, estimating work order cost analysis, assuring work order quality and managing construction activities.

5. In 1993, I worked with Bellcore in its Software Assurance Division. At Bellcore, I provided systems integration release testing support for the FACS product line. In 1995, I transferred to the Professional Services Division as Lead/Senior Consultant in the Telecommunications Business Process Consulting group. During this time, I provided consulting to major telecommunications firms in areas concerning Telecommunication Reform, Local Number Portability, Telecommunications Network Management (TMN) Systems Architecture, and Non-Recurring Costs. In 1997, I retired from Bellcore to start my own telecommunications consulting company.

6. The purpose of my testimony is to respond to the statements submitted by Verizon in its reply comments and in its *Feb. 20 Ex Parte*.[1] First, I show that Verizon's attempt to disguise its inflated hot cut non-recurring costs ("NRCs") by amortizing them over time and then combining them with unidentified "recurring rates" must be rejected. A correct interstate hot cut rate comparison shows that Verizon's New Jersey hot cut rates are well above those charged by Verizon in neighboring states. Verizon offers no explanation for these interstate hot cut NRC discrepancies.

7. Second, I show that the methodology used by Verizon to compute its hot cut NRCs is based on Verizon's embedded network and not on the forward-looking network as defined by the New Jersey Board of Public Utilities ("NJBPU"). In addition, Verizon's hot cut NRC cost model contains numerous inefficient manual processes that would not be necessary in Verizon's embedded network, and certainly would not be necessary in a forward-looking network. Verizon's claims in its *Feb. 20 Ex Parte*, that these costs are justified by some "new" information are baseless.

8. Third, I demonstrate that, based on the forward-looking network defined by the NJBPU, Verizon's hot cut NRCs should not exceed $4.35/line.[2]

II. VERIZON'S VERMONT HOT CUT NRCs ARE SUBSTANTIALLY HIGHER THAN THOSE IN OTHER VERIZON TERRITORIES.

9. The commenters in this proceeding have demonstrated that they cannot profitably use UNE-L to enter New Jersey's local markets due to Verizon's inflated New Jersey hot cut NRCs. *See, e.g.*, ASCENT Comments at 5; Cavalier Comments at 10; AT&T Comments

[1] *Ex Parte* Letter from Clint E. Odom, Verizon, to William Caton, FCC, CC Docket No. 01-347 (dated February 20, 2002) ("*Feb. 20 Ex Parte*").

[2] As shown in my New Jersey testimony (attached as Exhibit 1), in a fully forward-looking network, Verizon's hot cut NRCs would not exceed $2.77. *See* AT&T Comments, Exhibit 1.

at 14; AT&T Reply Comments at 8. The inability of potential entrants to enter New Jersey via UNE-L is not surprising. As demonstrated by AT&T in its opening comments, Verizon's New Jersey hot cut NRCs of $159.76 (without a premises visit) and $233.12 (with a premises visit) exceed those charged by Verizon in Virginia, Maryland, Pennsylvania, Delaware and Massachusetts by 117 percent to over 3000 percent. *See* AT&T Comments, Sczepanski Decl. Tables 1-2. Missing from that analysis was a comparison to the hot cut rates in New York because, at the time of AT&T's filing, those rates were still the subject of a settlement negotiation. Since then, a joint agreement has been reached that caps Verizon's New York hot cut NRCs at $35.00. Thus, Verizon's New Jersey hot cut NRCs are at least 4.5 times higher than in New York.[3]

10. Verizon does not explain why its hot cut NRCs for New Jersey should be so much higher than those in neighboring states. Instead, Verizon's witnesses attempt to hide this huge hot cut NRC disparity by amortizing the New Jersey hot cut rates over 36 or 60 months and then combining them with some undefined "recurring rates." *See* Verizon Reply, Garzillo/Prosini Decl. ¶ 28. Based on this flawed interstate comparison, Verizon's witnesses conclude that Verizon's hot cut NRCs – which are from 117 to over 3000 percent higher than those in other states – are actually quite similar. That analysis is obviously flawed.

11. As an initial matter, amortizing Verizon's New Jersey hot cut NRCs over several months does not (and should not) change the relative size of the NRCs among different states. The fact that Verizon's amortized analysis actually changes the relationship of hot cut rates among states as they are amortized should, therefore, raises a red flag.

[3] Based on this recent Joint Agreement, Verizon's claim that its New York hot cut rates are higher than its New Jersey hot cut rates is wrong.

12. Verizon disguises the obvious interstate hot cut NRC discrepancy by improperly combining the amortized New Jersey hot cut NRCs with its recurring costs. The Commission has long recognized that regardless of the level of a BOC's recurring rates, a BOC can and will evade competition if it is allowed to increase potential competitors' costs significantly through non-recurring charges.[4] That is because carriers must pay NRCs – including hot cut NRCs – up-front. If those NRCs are sufficiently overstated, then potential new entrants will not be able to afford to enter the market. Thus, Verizon's hot cut NRCs must be evaluated separately from its recurring rates, not combined with recurring rates.

13. In any event, Verizon's completely unexplained recurring/nonrecurring comparisons are bare assertions, unsupported by any data or calculations. Indeed, Verizon does not even explain which "recurring" rates it has combined with the NRCs.

III. VERIZON'S NEW JERSEY HOT CUT RATES DO NOT ADHERE TO THE APPROACH REQUIRED BY THE NJBPU.

14. Verizon claims in its *Feb. 20 Ex Parte* that its New Jersey hot cut NRCs comply with the NJBPUs Order. That is not true. The NJBPU determined that a forward-looking network in New Jersey be comprised of 60% integrated DLC with the remaining being 40% end-to-end copper.[5] Verizon's expert testimony, however, shows that its hot cut NRCs are

[4] *See, e.g., AT&T Communications*, 103 FCC 2d 277, ¶ 37 (1985) ("It is evident that nonrecurring charges can be used as an anticompetitive weapon to . . . discourage competitors"); Second Memorandum Opinion and Order on Reconsideration, *Expanded Interconnection with Local Telephone Company Facilities*, 8 FCC Rcd. 7341, ¶ 43 (1993) ("absent even-handed treatment, nonrecurring reconfiguration charges could constitute a serious barrier to competitive entry"). *See also* 47 C.F.R. § 51.507(e) ("[n]onrecurring charges . . . shall not permit an incumbent LEC to recover more than the total forward-looking economic cost of providing the applicable element").

[5] *See* Summary Order of Approval, *The Board's Review of Unbundled Network Elements, Rates Terms and Conditions of BellAtlantic-New Jersey, Inc.*, Dkt. No. To00060356, at 6 (Dec. 17, 2001).

not based on that network configuration, but on Verizon's embedded network configuration with far less integrated DLC. *See* Garzillo/Prosini Reply Decl. ¶¶ 21-24. Consequently, Verizon's hot cut NRCs plainly fail to comply with the NJBPUs Order, and do not comply with TELRIC. Thus, Verizon's hot cut NRCs are predictably overstated because the processes required to carry out hot cuts in Verizon's embedded network are more complex and costly than those required to carry out hot cuts in the forward-looking network as defined by the NJBPU.

15. For example, because Verizon's cost model is based on its embedded network, it does not reflect the NJBPU's mandate that Verizon's New Jersey network contain 60 percent integrated DLC. In fact, Verizon's cost study assumes that all lines are served by copper-feeder. *See* Exhibit 1 (attached). Consequently, the processes required to implement migrations orders in Verizon's embedded network include costs of manual and other inefficient processes that do not exist in the forward-looking network defined by the NJBPU.[6] As I explain below, the costs of migrating customers served by integrated DLC lines is far less than the cost of migrating customers on copper feeder lines.

IV. VERIZON'S HOT CUT NRCs INCLUDE COSTS OF NUMEROUS ACTIVITIES THAT WOULD NOT EXIST IN A FORWARD LOOKING NETWORK.

16. Verizon's hot cut NRCs are inflated by the inclusion of numerous activities that should not even exist when performing hot cuts on Verizon's embedded network, and certainly would not exist in a forward looking network.[7]

[6] In addition, it does not appear that Verizon's complied with this order. Although the NJBPU order eliminated premises visits with migration orders, Verizon continues to include premises visits for computing costs for migration orders.

[7] As explained in my New Jersey testimony (Exhibit 1 attached), these deficiencies are identified in Verizon's cost study materials.

17. Verizon's cost calculation, for example, double-recovers disconnection costs. The "two-wire" and "four-wire" hot cuts are nothing more than migration UNE-loop requests. A migration is simply two distinct service orders with the same "due-date" and "due-time"; a "disconnect of the existing service", and a "new connect" of the two-wire or four-wire UNE-Loop. Verizon collects the costs of disconnecting retail customers from those customers as up front cost when Verizon initially provisions the service to those customers, *i.e.*, retail customers prepay the disconnect charges for their lines. Yet, Verizon collects a "disconnect" fee again from CLECs through its hot cut rates. This double recovery is a plain violation of TELRIC principles.

18. In addition, Verizon claims that for every hot cut order, Verizon technicians will take several minutes to contact the CLEC and ask it if it will actually do the work on the CLEC end to perform the hot cut. That process is entirely unnecessary; the CLEC order itself represents its commitment to do the work.

19. Verizon also claims that certain manual processes must be undertaken (e.g., phone calls) to communicate to various workgroups that work will be required to perform a hot cut. Those communications are unnecessary because they are (or should be) automated. For example, there is no need to engage in manual processes to communicate to the central office frame technician (as Verizon's cost model assumes) that there is a pending order in the OSS because the frame technician already knows about the order from Verizon's pending order list. Expending labor time to duplicate automated OSS instructions (or to engage in activity that would be automated in the forward-looking cost model defined by the NJBPU) defeats the purpose of automated OSS efficiency and cost savings.

20. Another problem with Verizon's hot cut NRCs is that they include costs incurred by Verizon to check that its records correctly identify the line that will require a hot cut. In other words, Verizon charges CLECs, through hot cut rates, to make sure that Verizon's own records are accurate. These several minutes of labor are not properly attributable to the hot cut process, and CLECs should not be forced to pay them.

21. Verizon's hot cut processes also improperly assume that a Verizon technician, at the time the migration order is to take place, will receive yet another telephone call to yet again confirm that the CLEC really meant to order the migration to ensure constant service to the end-user customer. Furthermore, Verizon's hot cut process assumes that a Verizon technician will constantly monitor the migration process until the migration order has been completed.[8]

22. These labor intensive processes are not necessary. The central office frame technician can (ahead of the scheduled due date and due time) terminate the cross-connections at the CLEC equipment to the cable and pair without affecting working service. The cable pair is double tapped going to both Verizon's port and the CLEC port. If the service order says the due time is 10:00 am, it is expected that Verizon's OSS would release the translation message at that time to Verizon's switch, thus terminating their service. The CLEC's OSS would then release its translation message to activate their service, thus migrating the customer without the need for constant monitoring by Verizon.

[8] Notably, Verizon's current hot cut process actually permits Verizon to stop a scheduled hot cut if the CLEC's "dial-tone" is not present at the precise time indicated on the LSR, even if the CLEC's dial tone is turned on a minute later. This is very disruptive to the customer who expects the service to be working. Of course, the customer blames the CLEC for these problems even though they were caused by Verizon. Only the CLEC who places the order for the UNE-Loop should be permitted to alter that request. Verizon's responsibility is to deactivate the customer's retail service on the due date and time as indicated by the CLECs request.

23. Contrary to Verizon's claim that the hot cut process is "new" (*see Feb. 20 Ex Parte*), this process has been commonly used for years to migrate customers in a matter of seconds from one switch to another during switch cut-over conversions. The new switch office equipment is cross-wired to existing cable pairs and translations are programmed in the switch. On the night of the conversion, instructions are sent to the old (disconnecting) switch to terminate (or shut-down) service to that switch. Within a few seconds, a similar instruction is sent to the new switch to turn-on translations. This allows everyone in the old switch to be migrated to the new switch. While I was in NYNEX, I was personally involved with many switch conversions as an ESS Conversion supervisor. Verizon should have modeled their hot cut process like their switch conversion process, but they did not. Instead, they modeled an unnecessarily labor intensive process that has the effect of inflating NRCs.

24. The only manual labor (and non-recurring cost) that should be assessed to the CLEC in the hot cut process, is for the connection of the UNE-Loop to the CLEC's equipment. The manual activity involved in the connection of the UNE-Loop is the connection of two copper wires at the Central Office MDF, which can be accomplished in a matter of minutes (when the customer receives service over fiber feeder this connection can be made electronically with no manual labor). Verizon's elaborate cost scheme, involving numerous coordinating personnel from the RCCC and other Verizon employees, as they identify and disconnect the already paid-for retail service is, therefore, unjustified.

25. Verizon claims that much of the manual work that it performs is at AT&T's request. *See Feb. 20 Ex Parte* at 6. That is extremely misleading. In New York, Verizon's initial efforts at performing hot cuts were abysmal. In response to the CLECs' protests, and in order to further in New York 271 aspirations, Verizon put a number of "band

aid" fixes in place to ensure that hot cuts were performed on time and that CLEC customers were not left stranded without service. Most of these fixes involved a great deal of manual duplication of effort. These short-term (and expensive) fixes have now crept their way into Verizon's practices in its other states, including New Jersey. And Verizon is attempting to include its inefficient short-term fixes – which were implemented because of Verizon's poor performance in the fist place – in its New Jersey hot cut rates. Verizon's asserts that instead of being required to implement efficient OSS and hot cut procedures, it should be compensated for all the additional (and unnecessary) manual labor and layers of process that it had to implement to fix its own mistakes and incompetencies in order to obtain Section 271 approval in New York. These costs are at clear odds with TELRIC principles, which dictate that rates reflect efficient technology operated by an efficient carrier.

V. GIVEN THE FORWARD-LOOKING NETWORK DEFINED BY THE NJBPU, VERIZON'S HOT CUT RATES SHOULD BE NO HIGHER THAN $4.35.

26. As explained above, Verizon's hot cut NRCs for New Jersey are substantially inflated by numerous assumptions that are not consistent with the forward-looking network defined by the NJBPU. Using Verizon's cost model, I have attempted to fix many of these problems and recalculate Verizon's hot cut rates. In particular, I assumed the use of 60% integrated DLC in Verizon's network and removed many of the inefficient manual processes that would not be necessary given the existence if integrated DLC. As shown in Exhibit 3, that process produces a hot cut rate of $25.46.[9] Of course, that rough estimate does not address the fact that Verizon's cost model contains numerous embedded TELRIC errors that inflates even

[9] Verizon's New Jersey NRC cost model identified non-recurring rates for both copper-feeder (*i.e.*, analog loops) and integrated DLC loops, both of which have the same provisioning cost identified by the NJBPU of $23.15. Based upon the network mix, recommended by the NJBPU

this hot cut NRC estimate. *See* Exhibit 4 (my testimony from the New Jersey state proceeding identifying these errors).

27. A true TELRIC approach based on the NJBPU Order results in New Jersey hot cut rates that are no higher than $4.35. *See* Exhibit 3. As noted above, the NJBPU found that a forward-looking network would contain 60% integrated DLC loop and 40% copper-feeder loops. As described below, the forward-looking cost of a hot cut is much lower for lines served by integrated DLC than those served by non-DLC lines. Therefore, to compute the average cost of a hot cut in New Jersey, it is necessary to compute the cost of a hot cut for both integrated DLC and for non-DLC lines and then compute the weighted average of those costs.

28. *Integrated DLC Costs.* A hot cut performed on lines served by integrated DLC with efficient OSS requires virtually no manual processes because the hot cut can be performed electronically.[10] As fully documented in attachments 3 & 3c hereto, the cost of a hot cut on a loop served by integrated DLC is $ 0.54.[11]

29. *End-To-End-Copper.* When hot cuts are preformed on copper-feeder facilities only minimal manual processes are required. The cost efficient method of performing a hot cut on copper-feeder facilities is the same as that which is used today for many of Verizon's in provisioning its own retail services. The process begins when the service order is pending within Verizon's OSS. Like any number of Verizon's retail services, a CO Frame technician withdraws the order and terminates the cross-wire between the ILEC's loop and the CLEC's port

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and applied to the adjusted service ordering cost (using the same fallout rates indicated for the "Two wire New Initial") the total hot cut non-recurring cost would be $25.46. *See* Exhibit 3.

[10] There is no question that hot cuts can be performed on lines served by integrated DLC. *See, e.g.*, Exhibit 2.

[11] This rate includes the both installation and future disconnect cost. *See* Exhibit 3 and 3c.

ahead of the specific due-date and due-time.[12] On the due-date and at the due-time, Verizon's OSS releases a switch translation message (elcctronically) to the local switch, which deactivates the retail service. As indicated by the CLEC's request, the CLEC sends its own translation message to the CLEC's switch shortly thereafter (*i.e.*, the designated due-date and due-time), which activates the end-user customer's service on the CLEC's switch. As shown in Exhibit 3 and 3b (attached), the cost of these processes is $10.06 per line. *See Exhibit 3 AT&T Element #6, "POTS / ISDN BRI Migration (UNE Loop) -100% Copper* (attached).

30. The weighted average of these costs – 60% integrated DLC and 40% copper feeder – is $4.35. *See Exhibit 3 Recommendations by AT&T -Melded Rate (Installation + Disconnect), element #6, "POTS / ISDN BRI Migration (UNE Loop)" and element #8 "POTS / ISDN BRI Disconnect (UNE Loop).* Thus, the proper forward-looking hot cut NRC for New Jersey is no more than $4.35. *See* Exhibit 3.

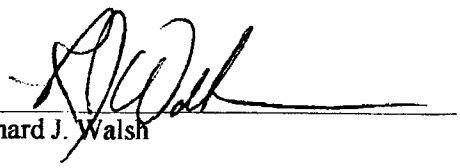
[12] The "due-date" and "due-time" represent the specific time of day negotiated by the CLEC with the end-user customer. This data is passed to Verizon's OSS via the Local Service Request.

VI. CONCLUSION.

31. For the foregoing reasons, Verizon's New Jersey hot cut rates are far above those that it would incur in the forward-looking network defined by the NJBPU.

VERIFICATION PAGE

I declare under penalty of perjury that the foregoing Declaration is true and correct.



Richard J. Walsh

Executed on: February 28, 2002

Attachment 2

3/13/02 AT&T Supplemental Comments
Supplemental Declaration of Richard J. Walsh
(attachments excluded)

Before the
Federal Communications Commission
Washington, DC 20554

In the Matter of Application of Verizon New Jersey, Inc., BellAtlantic Communications, Inc. (d/b/a Verizon Long Distance), NYNEX Long Distance Company (d/b/a/ Verizon Enterprise Solutions), Verizon Global Networks, Inc., and Verizon Select Services, Inc., for Authorization to Provide In-Region InterLata Services in New Jersey	)	CC Docket No. 01-347

SUPPLEMENTAL DECLARATION OF RICHARD J. WALSH
ON BEHALF OF AT&T CORP.

I. QUALIFICATIONS AND PURPOSE OF TESTIMONY.

1. My name is Richard J. Walsh. I am the same Richard J. Walsh that filed testimony with AT&T's March 1, 2002 *ex parte* Letter.

2. As fully documented in my initial declaration, Verizon's New Jersey hot cut NRCs are inflated by myriad fundamental TELRIC errors in Verizon's cost studies. Verizon's hot cut rates (1) are based on improper assumptions regarding the ratio of integrated digital loop carrier ("IDLC") lines and end-to-end copper lines; (2) double count costs that Verizon already recovers from its retail customers; and (3) are inflated by improper assumptions regarding the use of manual processes to perform hot cuts. Correcting for all of these problems, I showed in my initial declaration that Verizon's New Jersey hot cut NRC should be no higher than $4.35.

3. The purpose of my supplemental testimony is to respond to the baseless criticisms leveled against my initial testimony by Verizon in its March 8, 2002 *ex parte* Letter

and to explain the impact of the NJBPU's *Final Order* on my findings. In short, the *Final Order* confirms the findings in my initial declaration, and Verizon has offered no legitimate response to these showings.

II. CONTRARY TO VERIZON'S CLAIMS, ITS HOT CUT NRCs PLAINLY VIOLATE THE NJBPU'S 60/40 IDLC TO COPPER-TO-COPPER SPLIT.

4. As I demonstrated in my initial declaration Verizon's methodology for computing New Jersey hot cut NRCs violates the NJBPU's finding (*see, e.g., Final Order* at 71) that hot cut NRCs should be computed based on the assumed use of 60 percent IDLC lines and that 40 percent copper-to-copper lines. In attempting to rebut that claim, Verizon has now effectively conceded that point.

5. Verizon admits that it currently charges CLECs a separate hot cut NRC for performing IDLC and copper-to-copper hot cuts. *See* VZ March 8, 2001 *ex parte* Letter at 8. The problem with that rate structure is that Verizon's embedded network does not reflect a forward-looking network with a 60/40 split of IDLC and copper-to-copper lines. Verizon's embedded New Jersey network actually contains only 17 percent IDLC lines and 83 percent copper-to-copper lines. *See, e.g., Summary Order* at 6. Consequently, CLECs actually pay the IDLC hot cut rate only 17 percent of the time (rather than 60 percent of the time) and the copper-to-copper hot cut rate 83 percent of the time (rather than 40 percent of the time). Verizon's hot cut NRCs, therefore, plainly contravene the clear mandate of the NJBPU's *Final Order* (at 71).

6. As Verizon points out, however, the problem is even worse than described above because Verizon's IDLC hot cut rate fully reflects the cost of a copper-to-copper hot cut. *See* VZ March 8 *ex parte* at 5-8. Therefore, CLECs in New Jersey effectively pay the copper-to-copper hot cut rate for 100% of Verizon's lines, not the 40 percent of lines as required by the NJBPU's *Final Order*. Specifically, Verizon's cost study assumes that hot cuts cannot be

performed on IDLC lines without first converting those lines to copper-to-copper lines and then performing a copper-to-copper hot cut. That means that Verizon's current IDLC rates include all of the manual and other non-TELRIC processes that are reflected in Verizon's copper-to-copper hot cut rate plus the additional cost of converting the IDLC line to a copper line. That entire process is plainly unnecessary. As I demonstrated in my initial declaration, there is no question that Verizon can easily complete IDLC-to-IDLC hot cuts using virtually all electronic processes at very low cost. *See* Walsh Decl. at 28 & Attachment 2. In fact, even the Telcordia "notes" confirm that IDLC-to-IDLC hot cuts easily can be performed. *See* Exhibit 1 (attached).

III. VERIZON'S HOT CUT NRCs REFLECT "FIELD INSTALLATION" CHARGES IN VIOLATION OF THE NJBPU'S *FINAL ORDER.*

7. The *Final Order* identified non-TELRIC activities in Verizon's non-recurring cost model and ordered Verizon to remove the cost of those activities from its NRCs. My examination of Verizon's Compliance Filing shows that Verizon did not comply with those instructions. For example, the *Final Order* (at 163) requires Verizon to "Eliminate all field installation charges associated with migration orders." To accomplish this modification Verizon would first have to identify all migration type orders (including hot-cut orders) and then, within each supporting worksheet that supports the migrating element, remove each work task related to field installation. This can be accomplished by zeroing out the forward-looking occurrence factor at the task level.

8. Verizon's Compliance Filing does not reflect these changes. To comply with the *Final Order*, Verizon should (at a minimum) have modified worksheet #3 ("Two Wire Hotcut Initial") to reflect the removal of all Field Installation related activities. That process requires first the elimination of the "Field Installation" cost category and also the elimination of

all activities related to field installation. Verizon did not remove either of these costs from its hot cut NRCs.

9. For example, Verizon's Compliance Filing shows that "Two Wire Hotcut Initial" CO Frame activity task #18 in its non-recurring cost model states that "[i]f a problem occurs, resolve the problem with *field installation technicians* and the RCCC to insure that the CLEC can reach its end-user at the time of installation." By its own description, this task relates to the field installation activities that, according to the *Final Order,* should not be reflected in Verizon's hot cut NRCs. Likewise, the RCCC workgroup and its tasks generally deal with technicians and the involvement of the Field Installation work. But Verizon has made no modifications to the RCCC workgroup tasks that are reflected in Verizon's hot cut NRCs.[1] Put simply, Verizon's hot cut NRCs continue to reflect the costs of many Field Installation Activities in direct violation of the *Final Order*.

IV. CONTRARY TO VERIZON'S CLAIMS, ITS HOT CUT NRCs DO IN FACT DOUBLE RECOVER DISCONNECTION COSTS.

10. As I explained in my initial declaration, Verizon's Hot Cut NRCs double-recover disconnection costs by recovering those costs from CLECs through hot cut rates even though Verizon has already recovered those costs from its retail customers. Verizon denies this fact, claiming that "the [connect] costs associated with a hot cut, when a retail customer chooses to migrate to a Verizon retail competitor, account only for Verizon's costs for connecting a hot cut *beyond those associated with the disconnection of the end-user's service*." VZ March 8 *ex parte* Letter at 9. Verizon's own Compliance Filing shows that this statement is not true.

[1] In addition, as I explained in my rebuttal testimony before the NJBPU, Verizon's presentation of non-recurring costs inappropriately reflects the cost of Field Installation activities. In cases where the outside plant facilities were being re-used and no field installation is required,

Verizon's hot cut NRCs do, in fact, recover many costs associated with disconnecting Verizon's end users' service.

11. Verizon's Compliance Filing reflects, for example, the cost of individual tasks of the RCMAC (Recent Change Memory Administration Center) workgroup in its "Provisioning" cost category for computing hot cut NRCs. The RCMAC workgroup, however, is required only to disconnect Verizon's retail services. Indeed, Verizon's own cost study shows that RCMAC activities are unnecessary to provision the UNE-loop portion of the hot cut. Moreover, the descriptions of the RCMAC tasks in Verizon's Compliance Filing confirm that those tasks relate solely to disconnecting Verizon's retail services.

12. Verizon's NRC model for the "Two Wire Hotcut Initial" reflects RCMAC task #1 which states: "Obtain direct notification from RCCC for UNE migration to collocation arrangement which requires the *release of translation packets* held in MARCH." The "release of translation packets" are the actual switch translations required to *disconnect the retail service*. But Verizon already collects the non-recurring costs associated with the retail service disconnect from its customer.

13. RCMAC task #2 in Verizon's non-recurring cost model for "Two Wire Hot Cut Initial" says "Receive notification through PARIS of need to perform a manual translation change on *working service*." But the only "working service" during a hot cut migration process is Verizon's retail service. The work identified in that task relates to translations for the disconnection of Verizon's retail customer. Indeed, after the loop has been disconnected from Verizon's switch, the hot-cut is simply a UNE-Loop, and the connection of

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Verizon's NRCM includes the related (Field Installation) RCCC activities. This model design flaw allows Verizon to collect non-recurring cost for activities that are not actually performed.

the UNE-loop to the CLEC switch would not require the participation of the RCMAC workgroup.

14. RCMAC task #3 for "Two Wire Hot Cut Initial" says "Release translation change, under direction of the RCCC, into MARCH to effect number portability when required with a Hotcut." This task relates to number portability and may be the only task that would be necessary when migrating a customer to a competitor. However, in the retail service environment, Verizon may have to perform this same task to effect number portability when they acquire customers from competitors. Hence, the work involved for the retail service would be collected from the customer when the service was initially established.

15. "Two Wire Hotcut Initial" RCMAC task #5 states: "Obtain notification from the RCMC of trouble conditions on a CLEC end-user's line requiring RCMAC analysis and translation changes." Here Verizon is requiring the CLEC to pay a non-recurring cost associated with a trouble condition that Verizon has caused. When a hot-cut is fully migrated, and thus comes under the control of the RCMC, it is a UNE-Loop without any connection to a Verizon switch. The error condition that requires Verizon "analysis" or "translation changes" can only be related to number portability errors because the UNE-Loop is not connected to the Verizon switch. This is a maintenance expense that is already recovered by the UNE-Loop recurring rate and, therefore, should not be recovered as a non-recurring cost hot cut rate.

16. Two Wire Hotcut Initial RCMAC task #7 states: "Research and refer to the RCCC those translation packets held in MARCH for which no coordination call was received." There is no question that this activity reflects Verizon's retail disconnect activities. The "translation packets held in MARCH" is necessary only for disconnecting the retail service. Under Verizon's inefficient migration methodology, disconnecting retail service translations are

not released to the Verizon switch unless directed by the RCCC. In the event that Verizon's RCMAC has created translation packets, and received no call from the RCCC, Verizon is attempting to charge CLECs for the cost of that internal error through hot cut NRCs.

17. Thus, contrary to Verizon's assertions, its hot cut NRCs reflect the cost of numerous activities associated with disconnecting retail service. But Verizon has already recovered those costs through retail disconnect charges.

V. VERIZON OFFERS NO VALID EXPLANATION FOR THE MYRIAD MANUAL AND OTHER INEFFICIENT ACTIVITIES REFLECTED IN ITS HOT CUT NRCs.

18. In my initial declaration, I identified numerous inefficient manual and other activities that inflate Verizon's New Jersey hot cut rates. Verizon attempts to justify the use of these non-TELRIC manual processes and other inefficiencies by blaming CLECs. According to Verizon, CLECs requested the inefficient methodologies used by Verizon to implement hot cuts. *See, e.g.,* VZ March 8 *ex parte* at 11. However, as I explained in my initial declaration, Verizon fails to note that these additional activities are required because Verizon's hot cut provisioning process was so poor and often resulted in outages for new CLEC customers. For example, Verizon maintains a technician on stand-by while AT&T switch translations are programmed so that the technician will be available to correct errors in the hot cut provisioning that would result in no dial-tone for AT&T's new customer. In a forward-looking network, where many hot cuts can be provisioned using only electronic processes and where the rest of the hot cuts are properly and efficiently performed by Verizon, these protective mechanisms would not be necessary. Thus, the costs incurred by Verizon are due to inefficiencies in its embedded network and its hot cut functions, and would not exist in a forward-looking network.

19. Verizon's only response to the fact that its hot cut NRCs reflect the numerous non-TELRIC activities due to its poor hot cut provisioning processes is that its hot cut

process is actually stellar and has received "accolades" from "independent standards bodies." *See* VZ March 8 *ex parte* Letter at 12. The only "accolade" Verizon is able to cite, however, is an ISO-9000 certification. *See id.* Predictably, Verizon neglects to mention the "prestigious" ISO-9000 certification takes the process to be certified as a given and only examines whether that process is well-documented and carried out as planned. ISO-9000 in no way examines whether the process is efficient or forward-looking. Thus, Verizon could obtain ISO-9000 certification for a hot cut process that relied on 100 technicians and hand delivery of instructions from one Verizon department to another, so long as Verizon properly documented and followed that patently inefficient process.

20. Lastly, Verizon actually boasts about one of its inefficient hot cut processes. According to Verizon, it "does not simply turn off its dial tone at the exact date and time scheduled for migrations" rather "Verizon's dial tone is [not] disconnected [until] 11:59 pm on the due date – well after the customer has been migrated by the CLEC." VZ March 8 *ex parte* at 13. According to Verizon, this expensive process allows Verizon to "resolve any problems." *Id.* In a forward-looking network, however, this process would be entirely unnecessary. Verizon's responsibility should end at the time that the hot cut was scheduled to take place. And CLECs should not have to pay for the increased costs caused by Verizon's inefficient methodologies.

VI. CONTRARY TO VERIZON'S CLAIMS, THERE EXIST TODAY MORE EFFICIENT METHODS FOR PROVISIONING HOT CUTS THAN THOSE ASSUMED BY VERIZON'S HOT CUT NRC COST MODEL.

21. I demonstrated in my initial declaration that Verizon could immediately adopt more efficient methodologies for provisioning hot cuts. In particular, I explained that many of the labor intensive processes used by Verizon are not necessary. A more efficient and less labor intensive hot cut methodology would be for the central office frame technician to

terminate (ahead of the scheduled due date and due time) the cross-connections at the CLEC equipment to the cable and pair without affecting working service. The cable pair would then be double tapped going to both Verizon's port and the CLEC port. If the service order says the due time is 10:00 am, it is expected that Verizon's OSS would release the translation message at that time to Verizon's switch, thus terminating their service. The CLEC's OSS would then release its translation message to activate their service, thus migrating the customer without the need for constant monitoring by Verizon.

22. Contrary to Verizon's claim that this methodology is unproven and "imaginary," this process and methodology has been commonly used for years to migrate customers in a matter of seconds from one switch to another during switch cut-over conversions. The new switch office equipment is cross-wired to existing cable pairs (in essence the switch ports are double tapped) and translations are programmed in the switch. On the night of the conversion, instructions are sent to the old (disconnecting) switch to terminate (or shut-down) service to that switch. Within a few seconds, a similar instruction is sent to the new switch to turn-on translations. This allows everyone in the old switch to be migrated to the new switch. While I was in NYNEX, I was personally involved with many switch conversions during the 1980's as an ESS Conversion supervisor.

23. At that time, NYNEX replaced "electro-mechanical" and "analog" switching centers with both #1A ESS switches and more updated Digital switches. This was accomplished using the "double tapped" methodology, *i.e.*, the end user's cable-pair was cross-wired to both the old switch and the new switch simultaneously. At a prescribed date and time, the old switch would be de-activated, immediately following the newer switch was activated, thus migrating thousands of working customers between switches in a matter of minutes. The

switching center conversions I was personally involved with included such places as Broad Street Central Office, Providence RI, (40,000 ++ working Lines), Green Street Central Office, Providence, RI (65,000 ++ working lines), Pawtucket, RI (50,000 ++ working lines), to name a few. Verizon should have modeled their hot cut process to reflect the efficiencies long used in their switch conversion process. Instead, Verizon modeled an unnecessarily labor intensive process that has the effect of inflating NRCs.

24. The only manual labor (and non-recurring cost) that should be assessed to the CLEC in the hot cut process, therefore, is for the connection of the UNE-Loop to the CLEC's equipment. The manual activity involved in the connection of the UNE-Loop is the connection of two copper wires at the Central Office MDF, which can be accomplished in a matter of minutes (when the customer receives service over fiber feeder this connection can be made electronically with no manual labor). Verizon's elaborate cost scheme, involving numerous coordinating personnel from the RCCC and other Verizon employees, as they identify and disconnect the already paid-for retail service is, therefore, unjustified.

VII. CONCLUSION.

25. For the foregoing reasons, Verizon's New Jersey hot cut rates are far above those that it would incur in the forward-looking network defined by the NJBPU.

VERIFICATION PAGE

I declare under penalty of perjury that the foregoing Declaration is true and correct.

Richard J. Walsh

Executed on: March 13, 2002